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S E C R E T SECTION 01 OF 03 AMMAN 002363

SIPDIS

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TAGS: [EFIN](#) [EAID](#) [JO](#)

SUBJECT: TFI201: DISBURSAL OF SUPPLEMENTAL AID TO JORDAN

Classified By: AMBASSADOR EDWARD W. GHEHM. REASONS 1.5 (B) AND (D)

1. (s) Summary. With preliminary assessment of the political and economic impact of the war in Iraq revealing substantially greater costs than foreseen last year, senior leadership of the Jordanian government, including King Abdullah himself, have urged prompt disbursal of the recently appropriated \$700 million in supplementary economic assistance. In recent conversations with the Ambassador, the King and senior officials have reasserted the Jordanian government's commitment to the economic objectives agreed last fall. These officials have proposed a process for disbursing U.S. aid that would help defuse short-term political pressures while ensuring that it is disbursed through the budget to meet fiscal needs as they occur over time and with conditions that wean Jordan off its dependency on cheap Iraqi oil. Given the importance of Jordan's economic and political stability to our fundamental objectives in this region, the Embassy strongly supports this request for quick action, with follow-up that reinforces our seriousness about the need to follow through on policies that bolster Jordan's economic viability and independence. End Summary.

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Reaffirmed Commitment to Economic Basis for Aid  
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2. (s) The government of Jordan has affirmed to the Ambassador at several levels -- including the King, Prime Minister, and ministers of finance, planning and foreign affairs -- that it remains committed to the arrangements worked out in late 2002 for providing emergency U.S. assistance linked to a conflict in Iraq. In particular, Jordan is committed to the overarching objective of using U.S. aid within the budget to meet fiscal deficit targets agreed with the IMF without having to make socially and politically disruptive cuts in budgetary social spending. In addition, Jordan remains committed to using the "breathing space" afforded by emergency U.S. assistance to smooth the process of transition from its economic dependence on concessional Iraqi oil to a market-based system for procuring and marketing oil.

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Domestic Political Cost of Conflict More than Foreseen  
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3. (s) At the same time, the King faces a domestic political cost from the war that is likely to be much longer lasting than he and we foresaw last year. He and the government currently find themselves under intense pressure from a public that is angry about the Western military toppling of the regime of a neighboring Arab country, dismayed by the suffering of the Iraqi people, and disillusioned by growing evidence of Jordanian cooperation with the Coalition effort. The King has resisted extraordinary pressure for a public denunciation of the United States and the coalition called for in an unprecedented petition signed by 99 prominent Jordanians, including former prime ministers. Coming along with the economic shocks Jordan faces as a result of the war, the tensions and pressures on King Abdullah have been greater than they ever have been since he took the throne. Thus, the King has an intense need to demonstrate to the Jordanian people quickly that the policies he followed were in their best interest.

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King's Desire to Meet Political and Economic Objectives  
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4. (S) It is therefore the King's need and desire that we find a mechanism for disbursing U.S. assistance that will simultaneously safeguard its economic objectives and give the King greater political latitude to persevere in policies -- including parliamentary elections in June -- that support fundamental U.S. interests in the region. Finance Minister Marto, in close consultation with the King and Prime Minister, has therefore proposed that we transfer as soon as possible the entire \$700 million amount appropriated in the FY03 Supplemental. Rather than spending it all at once, however, the government of Jordan is prepared to place the funds in a special account at the Federal Reserve Bank of New York or other appropriate institution. Balances in the account would be drawn on as necessary to cover budgetary

needs caused by revenue reductions or additional spending needs linked to the conflict in Iraq.

15. (s) The government says it will need to draw on \$500 million of the assistance quickly (see paras 7-10 below). To preserve the commitment to sequence reforms so as to move to economic independence while blunting the social costs, the government is ready to commit not to draw down the final \$200 million in the account until a) the IMF has renewed its endorsement of Jordan's economic program, and b) the cabinet has approved a three-year strategy to eliminate all petroleum product subsidies and has made a policy "down payment" of an initial increase in domestic petroleum product prices. If it makes us more comfortable, the GOJ is also ready to signal its commitment to ongoing fiscal soundness by agreeing that it will not use the U.S. aid to avoid implementation of budgetary revenue measures it has told the IMF it will take this year, including increasing General Sales Tax (GST) rates and closing loopholes.

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Economic Impact Sharper and Deeper than Foreseen  
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16. (s) Like the stronger than expected political impact of the war, the economic costs appear to have come sooner, and cut deeper than foreseen last fall. According to Minister Marto, the war will add \$950 million to the fiscal deficit in 2003 alone. This includes a \$360 million additional cost of procuring oil outside the Jordan-Iraq barter arrangement for the year as a whole. Of this, \$210 million should be offset by an expected oil grant of 100,000 bpd from Gulf states for three months, so that the net negative deficit impact related to oil procurement alone would be \$150 million. This means that the government will need to cover a \$740 million shortfall in order to meet its 2003 deficit target.

17. (S) In addition to the \$150 million in extra oil costs, the shortfall includes \$400 million in lower than expected budgetary revenue due to reductions in expected collections of sales tax, income tax, customs, other taxes and fees, and in the "oil surplus" the government earns by selling refined Iraqi crude to the public for more than its actual cost. Additional expenditures of \$190 million will be required to mitigate the economic impact of the war on various sectors. Marto foresees a need for \$60 million for emergency spending on industry and labor support (including worker retraining programs), \$40 million for the transportation sector, and \$30 million for the tourism industry, with additional amounts required to pay for measures necessary in the lead-up to the war to prepare for refugee flows (about \$10 million) and to enhance domestic security.

18. (S) Marto stresses that these are conservative estimates based on the best information available to him at this time. If the immediate need is mitigated in any way, he would stretch the spending into 2004. If more resources become available from other sources, he would like to use them for additional support that would help minimize layoffs in sectors (industry, tourism, transportation) that he expects to take the hardest hits over the year and to begin implementation of projects, through the national budget process, contained in the Social and Economic Transformation Program (SETP). Such projects are designed to address basic needs in rural and disadvantaged areas, increase long-term economic potential and productivity, and bolster popular support for the economic reform process.

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Comment  
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19. (s) The mechanism the Jordanians propose seems eminently reasonable. It directly addresses fundamental U.S. policy goals with regard to Jordan: it contributes to the political stability of a key Arab ally committed to expansion of the democratic process, and it preserves a commitment to economic reform that is unique in this region. By channeling the money from a special account into the budget to meet budgetary needs as they arise, it ensures that overspending above Jordan's "absorptive capacity" is avoided. Should the budgetary needs not materialize to the extent foreseen by Marto this year, it would provide for a flexible sequencing of spending the aid through the budget over a two or more year period. The King, Prime Minister, and finance, foreign, and planning ministers have told us that they are committed to such a framework. The government is also ready to report to us regularly and in greater detail on the extraordinary fiscal impact of the war, as its impact continues to become clear.

110. (s) We also share the analysis that the impact of the war on the Jordanian economy and budget will be sharp and deep, creating potential for more politically disruptive dislocations at a critical time for Jordan and the region. The World Bank says that Jordan will bear the brunt of the

regional impact of the conflict and estimates that without extraordinary assistance, real GDP growth initially projected at over 5% for this year could be in large part wiped out, leading to a return to negative per capita income growth. According to Jordanian officials, budget revenues in the first quarter were already at least \$250 million below target, due mainly to a reduction in consumption and economic activity during the period of uncertainty that preceded the conflict. At the same time, it now seems that recovery could be more rapid than foreseen last fall. Along with continued strong growth of exports to the U.S., Jordan's business sector is moving aggressively to capitalize on new regional opportunities in a free Iraq and from hoped-for easing in Israeli-Palestinian tension.

11. (s) From both a political and economic aspect, the embassy urges that we move quickly along the lines proposed by the Jordanians. From a political perspective, we cannot afford to take unnecessary risks in Jordan at this juncture in the region. On the economic side, short-term support will be crucial, while the longer-term reform objectives are fully accepted and reaffirmed. We have a small window of opportunity. The longer the process in Washington takes, the greater the political pressures on the King will be to backtrack on both the political and economic sides.

12. (s) Finally, we recommend that the USG take advantage of upcoming meetings with Jordanian leaders, including a possible visit by Foreign Minister Muasher to Washington, to reiterate at the highest levels our seriousness about Jordan's need to follow through with reforms that increase its economic independence and sustainability, including the elimination of oil price subsidies. Communications between Treasury and Finance Minister Marto at the appropriate time could also reinforce that sense of purpose.

GNEHM